

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003**

NOTE 16 – LEGAL MATTERS/CONTINGENT LIABILITIES

Primary Government

Any liability from litigation currently pending or probable of assertion against King County and in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of \$500,000) assessed against King County is probable, has been accrued in the financial statements.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A lawsuit for injuries allegedly suffered by the plaintiffs due to toxic mold exposure in a rental house that the plaintiffs occupied. The lawsuit alleges negligence on the part of the County for failure to condemn the property and seeks damages of \$20.1 million.
- A contract claim for \$2.3 million by a contractor who remodeled the terminal building at the King County International Airport. The claimant alleges additional costs for extra work, overhead, productivity loss, and lost profit were due to County-caused delays and defective plans and specifications.
- A request for equitable contract adjustments submitted by two contractors who worked on remediation of contaminated soils on a Duwamish River site. The contractors claim additional work and delays in excess of \$700,000. The County is still reviewing this claim and there is a reasonable chance, after the review, that this matter will be deemed remote.
- A lawsuit filed by the prime contractor (by substitution) on the Alki Transfer/CSO project contract alleging \$1 million in claims for adjustments to the contract sums. This similar claim was originally filed by a subcontractor on the same project but was unsuccessful.
- A lawsuit filed with the King County Superior Court by a group of part-time transit operators seeking backpay, prejudgment interest, double damages, and attorneys' fees. Plaintiffs allege they were denied certain employment benefits. This is the plaintiffs' second lawsuit filed after their claim for damages under the Logan vs. King County settlement agreement was denied.
- A pending settlement, subject to approval by the principals of each party, arising from a court-ordered mediation of a lawsuit against King County and the City of Bellevue. In the lawsuit plaintiffs sought declaratory and injunctive relief for alleged violations of the Federal Clean Water Act, the Solid Waste Disposal Act, and the Endangered Species Act arising from sediment erosion in Coal Creek Park
- A class action lawsuit alleging violation of the Washington Industrial Welfare Act regarding the provision of paid lunch breaks for certain employees of the Department of Adult and Juvenile Detention. Plaintiffs seek backpay, double damages, prejudgment interest, attorneys' fees, and declaratory relief.
- A contract claim by a contractor who worked in the Denny Way/Lake Union CSO Control project and who claimed additional costs after encountering differing site conditions underground, settlement of a water main, and a large sinkhole. The County has issued a change order to the contractor in the amount of \$641,408 for the differing site conditions

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NOTE 16 – CONTINUED

and seeks reimbursement from the city for 40 percent of this cost and those costs associated with the other items encountered.

- A lawsuit by a property owner contesting the current land use designation of the property under the King County Comprehensive Plan. Plaintiffs claim that the property should not be designated as agricultural resource land since the surrounding property is predominantly light industrial and this would inversely condemn the property. A settlement has been reached contingent on obtaining King County Council approval.
- A lawsuit filed by a major solid waste hauler alleging: (1) improper increase in the regional direct rate charged for disposal of garbage at the Cedar Hills landfill; (2) violation of the State Accountancy Act related to rent being paid by the Solid Waste Division to the General Fund for the use of the Cedar Hills landfill site; and (3) the lack of interlocal agreements between counties permits the hauler to transport solid waste directly to landfills outside the County.
- A class action lawsuit challenging the legality of the permit review fees assessed by the County's Department of Development and Environmental Services (DDES). Plaintiffs seek declaratory and injunctive relief and a refund of fees that plaintiffs were allegedly overcharged.

Contingent Liabilities

King County has entered into several contingent loan agreements totaling \$51.2 million with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

Component Unit – Harborview Medical Center

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion, however, that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future governmental review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify, and save harmless King County, its elected and appointed officials, employees, and agents, from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.